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Mexico

DAIRY AND PRODUCTS ANNUAL

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Report Highlights:

Despite the effects of the financial crisis, Mexico's fluid milk, powdered milk, cheese, and butter production are anticipated to rise in 2010 given that these products are basic ingredients in the Mexican diet. The rate of growth of imports of NFDM is forecast higher than 2009 (5.3 percent vs. 3.9 percent) due to a more stable exchange rate. However, this minimal growth rate will continue in the short and the medium terms as opposed to the high growth rates of the past 10 years. Consumption of inexpensive dairy products in Mexico is expected to grow in 2010 as consumers continue to expand the range of products demanded. In CY 2009, LICONSA expects to use 640 million liters of domestically produced milk, 5 percent more than in 2008.

Executive Summary:

For 2009 and 2010, the Mexican Government and Congress will continue to face difficult choices on how to support the Mexican dairy sector. Many factors continue to weigh on the Mexican dairy sector such as full implementation of NAFTA, the financial crisis, and the presence of noncompetitive dairy producers. However, the Mexican dairy sector continues to seek a reduction in government imports of dry milk, a higher LICONSA [1] price paid to Mexican dairy producers and a change to the Mexican law which regulate the ingredients and use of whey in the production of yogurt and cheese.

Given the current economic situation and the political environment LICONSA continues to increase purchases of domestically produced milk; thus, imports of non-fat dry milk (NFDM) by LICONSA continue to decline.

However, since dairy products are basic ingredients in the Mexican diet, Mexico's fluid milk production is expected to grow in 2010, leading to increased production of cheese, butter, powdered milk, and other dairy products. Imports of NFDM are forecast to increase only 5.6 percent because of the availability of domestic milk supplies.

Data included in this report is not official USDA data. Official USDA data is available at:
http://www.fas.usda.gov/psd

[1] LICONSA is a state owned company under the Secretariat of Social Development. LICONSA is responsible for distributing milk to the poor.

Commodities:

Dairy, Milk, Fluid

Production:

Fluid milk

The total number of dairy cows is forecast to increase 2 percent in 2010. The cows-in-milk data was revised slightly upward for CY 2009 and CY 2008 based on the National Institution of Statistics and Geographic (INEGI) census of 2007 and dairy sector information. Forty-nine percent of the cows are for milk, 41 percent are for dual-purpose cows (farms featuring dual-purpose breeds), and 10 percent are for family or subsistence dairying. [1]

The production of milk will continue to grow steadily. Despite higher productivity resulting from technological improvements and better herd management practices during the hot summer months, cow fluid milk production for 2010 is forecast to increase only 2 percent. This slight increase is due to the presence of noncompetitive dairy producers, the financial crisis and the current drought within Mexico. The fluid milk production estimates for CY 2009 and 2008 have been revised according to official data.

Despite these efforts to be more productive, Mexico's consumption continues to outpace production. Factors such as competitively priced imported milk, the financial crisis, peso devaluation, inadequate sanitation, lack of genetics, cold storage and refrigeration infrastructure are limiting and will limit efforts to increase milk production not only with smaller producers, but also with small and medium sized dairies. However, large dairies are continuing to make modest productivity gains through improved genetics and herd management practices. These companies have announced infrastructure investments for 2010 and for the remainder of 2009, despite the economic situation within Mexico.

Dual-purpose cows begin lactating during May, so protests and media declarations about low milk prices normally begin between March and April each year. Milk production increases from May to October as that is the period of greatest calving. Due to political pressures facing Congress, LICONSA continued to pay 4.77 pesos (US $0.353 [2]) per liter to producers (average weighted price) for the first half of 2009.

According to feed sector contacts, in 2009 total feed production is forecast at 26.6 million tons with 17.3 percent being distributed to the dairy cattle sector. Fifty-six percent of the feed is produced by plants of vertically integrated enterprises with the other 44 percent produced by commercial feed millers.

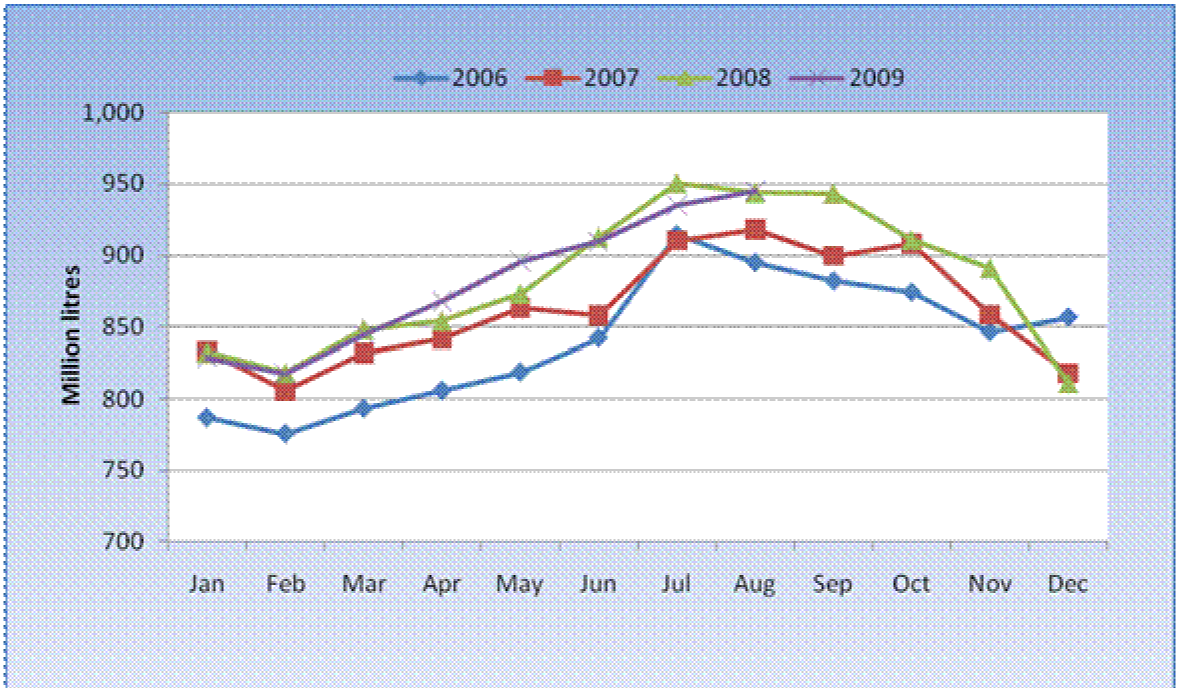
Table 1. Mexico: Total cow fluid milk production by State, calendar year 2007-2009 and January-March 2008-2009, in thousand liters.

STATE	2007[1]	2008[2]	2009[3]	January to August		% Change	
				2008[2]	2009[2]	Jan-Dec 07/08	Jan-Aug 09/08
AGUASCALIENTES	375,401	370,399	380,076	246,273	244,090	-1.3%	-0.9%
BAJA CALIFORNIA	207,915	193,422	227,828	129,876	127,791	-7.0%	-1.6%
BAJA CALIFORNIA SUR	43,150	46,451	45,962	31,363	31,060	7.7%	-1.0%
CAMPECHE	35,517	35,029	37,881	23,383	20,909	-1.4%	-10.6%
COAHUILA	1,286,281	1,363,762	1,307,248	908,913	884,470	6.0%	-2.7%
COLIMA	36,146	36,525	36,620	15,864	14,102	1.0%	-11.1%
CHIAPAS	353,085	372,249	354,777	248,916	242,865	5.4%	-2.4%
CHIHUAHUA	817,919	926,222	862,004	625,773	619,338	13.2%	-1.0%
DISTRITO FEDERAL	10,058	12,322	14,770	8,303	9,171	22.5%	10.5%
DURANGO	1,019,227	1,036,581	1,091,284	697,316	672,857	1.7%	-3.5%
GUANAJUATO	674,660	684,202	695,446	459,509	501,297	1.4%	9.1%
GUERRERO	82,001	81,552	79,038	51,240	50,975	-0.5%	-0.5%
HIDALGO	460,773	452,977	472,220	305,984	299,948	-1.7%	-2.0%
JALISCO	1,793,579	1,855,362	1,863,665	1,196,299	1,230,268	3.4%	2.8%
MEXICO	478,211	464,573	464,502	306,208	298,214	-2.9%	-2.6%
MICHOACAN	328,185	329,079	331,728	215,022	212,697	0.3%	-1.1%
MORELOS	21,105	18,809	20,526	12,654	13,741	-10.9%	8.6%
NAYARIT	64,536	61,974	62,717	42,932	38,190	-4.0%	-11.0%
NUEVO LEON	41,432	39,909	44,815	25,870	28,742	-3.7%	11.1%
OAXACA	142,795	145,213	146,473	82,669	90,032	1.7%	8.9%
PUEBLA	384,707	384,285	424,341	253,129	264,220	-0.1%	4.4%
QUERETARO	200,835	195,791	195,356	130,968	127,910	-2.5%	-2.3%
QUINTANA ROO	5,642	5,623	5,866	3,753	4,102	-0.3%	9.3%
SAN LUIS POTOSI	140,630	141,828	135,462	93,458	86,273	0.9%	-7.7%
SINALOA	88,633	93,779	94,559	70,538	64,128	5.8%	-9.1%
SONORA	137,780	134,921	128,738	89,871	85,371	-2.1%	-5.0%
TABASCO	110,603	110,694	118,652	85,377	83,147	0.1%	-2.6%
TAMAULIPAS	29,224	30,209	32,501	20,265	21,272	3.4%	5.0%
TLAXCALA	110,258	110,924	120,226	75,671	79,414	0.6%	4.9%
VERACRUZ	692,754	697,288	834,297	470,045	491,705	0.7%	4.6%
YUCATAN	5,557	5,608	5,267	3,585	2,847	0.9%	-20.6%
ZACATECAS	167,383	163,293	170,527	102,152	102,661	-2.4%	0.5%
NACIONAL	**10,345,982**	**10,498,994**	**10,805,372**	**7,033,178**	**7,043,804**	**1.5%**	**0.2%**
Lagunera Area	2,205,498	2,255,272	2,250,843	1,513,962	1,460,061	2.3%	-3.6%

Source: Servicio de Informacion Agroalimentaria y Pesquera (SIAP), SAGARPA
1) SAGARPA's definitive figures for 2007

2) SAGARPA'S preliminar figures
3) SAGARPA´s forecast figures for 2009

Figure 1. Mexico: Monthly cow fluid milk production, CY 2006-2009 (thousand liters)



[1] According to official estimates the daily average yields per cow are: specialized dairy cattle 25 liters, semi-specialized 19-22 liters, dual-purpose 15-17 liters, and subsistence less than 15 liters.
[2] Exchange rate: 13.5 pesos per dollar.

Consumption:

According to industry estimates, approximately 66 percent of milk is consumed as fluid milk and the rest (34 percent) is consumed as dairy products. The consumption of pasteurized milk and dairy products represents almost 50 percent of total consumption.

Fluid Milk

In CY 2010, fluid milk consumption is forecast to increase slightly (2.1%) relative to CY 2009. This is due to consumer preference for fluid milk, which is perceived as a healthier, stronger and cheaper product as compared to other dairy process product. Direct consumer consumption of fluid milk is expected to increase 4.7 percent; in contrast, processing use is expected to remain basically unchanged for CY 2009 (0.4 percent increase).

Despite the lack of increased consumption for dairy processed products due to the financial crisis, Mexico's dairy processors continue to supply a variety of dairy products to consumers. Growth in demand in the medium term is heavily dependent on consumer income recovery.

Fluid milk consumption in CY 2009 was revised downward as a consequence of lower powdered milk imports, but still grew 1.8 percent relative to consumption in 2008.

As previously reported, LICONSA continues to decrease its dependence on NFDM imports in order to support domestic dairy producers. In CY 2009, LICONSA is expected to purchase 640 million liters of domestically-produced milk (5% more than 2008), of which 609.5 million liters [1] was purchased at 4.00 pesos, plus a quality incentive, per liter plus an additional 30 cents paid by SAGARPA. This level of market intervention demonstrates the Mexican government's commitment to promoting local (59 percent) versus imported milk (41 percent).

The total consumption estimate for CY 2008 has been revised down to reflect official data.

Consumption of fresh fluid milk continues to be hampered by problems with sanitation, transportation, and processing capacity, but supplies and quality are improving.

[1] This amounts to about 6 percent of the total domestic fluid milk.

Trade:

Mexico continues to be an attractive market for U.S. dry milk exports. While Mexican milk production is increasing at an average of 1.5 percent every year, the food processing sector requires an increase of at least 3 percent every year. Thus, Mexico will still have to supplement domestic production with imports. The majority of product imported and produced domestically is used for further processing. LICONSA is the main holder of milk powder stocks.

Fluid Milk

Fluid milk imports for CY 2010 are forecast to increase 43 percent with respect to the CY 2009 estimate. Despite expected increases in 2010, the import level will be lower than that recorded in 2008 due to a higher imported price as a result of the peso devaluation. In the current year, it is expected that fluid milk trade will decrease 44.4 percent with respect to 2008. The comparative ease in storing powdered-milk further compounds the difficulties the sector is facing. The CY 2008 fluid milk import estimate remains unchanged and reflects official data.

Stocks:

Stocks

No stocks are held due to the lack of refrigerated storage space among producers and end users. End users maintain just-in-time inventories for these products.

Commodities:

Dairy, Cheese

Production:

Despite the financial crisis decreasing gross family income, CY 2010 cheese production is forecast to increase 2.7 percent over CY 2009. CY 2009 estimates were revised approximately 20 percent higher than CY 2008. Factors influencing CY 2009 production are the availability of inexpensive cheese such as yellow, panela and fresh cheese; in contrast, the aged cheese production is expected to decline. Commercial cheese processors, particularly those using imported non-fat dry milk, continue to increase production as they strive to meet growing consumer demand for processed cheese and restaurant products containing cheese.

Output for CY 2008 remains unchanged at 188,000 MT, and reflects official data adjusted to 100 percent of production. As previously reported, cheese production data omitted 20 percent of national production.

Estimates include fresh cheese production, which represents about 70 percent of the total. The remainder is aged cheese production (yellow, Chihuahua and Manchego).

Consumption:

Cheese

Cheese consumption is forecast to increase 3.1 percent for CY 2010 as a result of greater demand from middle class consumers for fresh, instead of aged cheese. Cheese consumption for CY 2009 was revised upward from the previous estimate and is 16.7 percent higher than the consumption for CY 2008.

It is expected that in 2009 only 24 percent of cheese demand will be covered by imports: In contrast, 27 percent of cheese consumption was imported in 2008. On average 10 liters of milk are needed to produce a kilogram of cheese, thus it is cost effective to import cheese than produce it, however the volatility of exchange rate has caused imports to be more expensive.

Trade:

Cheese

Despite the financial crisis, CY 2010 cheese imports are expected to increase 4.2 percent as higher income consumers continue to develop preferences for non-Mexican cheeses. Estimates for CY 2009 were revised upward to reflect official data. The increase can be contributed to a more liberalized dairy market within Mexico, especially compared to past years. Imports for CY 2008 remain unchanged and reflect official data.

Cheese exports for 2010 are expected to be at the same level as 2009 according to industry estimates. Figures for 2008 were revised lower than previously reported due to the slow pace of exports. More than 50 percent of exported volume corresponds to Chesse, nesoi, including cheddar and colby under HS code 0406.90

Stocks:

Stocks

No stocks are held due to the lack of refrigerated storage space among producers and end users. End users maintain just-in-time inventories for these products.

Commodities:

Dairy, Butter

Production:

Butter

Statistics for butter and butterfat production are combined [1] in the PS&D table.

Butter (and butterfat) production for CY 2010 is forecast at 170,000 MT, an increase of 3 percent over the CY 2009 estimate. This is due to the marginal increase in fluid milk output and improved returns to processors. For CY 2009, the butter production estimate was revised downward, because the domestic baking and confectionary industries have seen a decline in consumption of products using butter as an ingredient. This is largely due to lower family gross incomes. Production for CY 2008 reflects official adjusted data [2] .

[1] See semi Annual report May 2009 for a complete explanation of butter statistics.

[2] The official data (INEGI) report only 80 percent of national production. Since the semiannual 2009 report, production data is being estimated to show 100 percent of national production.

Consumption:

Butter

Combined butter and butterfat consumption for CY 2010 is forecast to increase 3.7 percent after a decline in 2009 of 2.7 percent. The estimate for CY 2008 was revised downward reflecting a contraction in production, which resulted from a decline in usage by the baking, confectionary and food processing industries.

Trade:

Butter [1]

Imports are forecast to increase nearly 3.4 percent in CY 2010, reaching 60, 000 MT, compared to CY 2009 estimate of 58, 000 MT. Despite the economic situation, in CY 2009 imports are expected to increase 18.4 percent compared to estimates in 2008. CY 2009 expansion occurred due to expanded domestic production of fluid milk; however, the new estimate for 2009 is lower than the 2007 level. Imports for CY 2008 remain unchanged and reflect official data.

[1] Import data includes butter and butter oil (HS codes 0405.1001, 0405.1099, 0405.9001, and 04059099). Butter oil imports are reported in butterfat equivalent (1 kg butter oil equals 1.25 butterfat).

Stocks:

Stocks

No stocks are held due to the lack of refrigerated storage space among producers and end users. End users maintain just-in-time inventories for these products.

Commodities:

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

Production:

Non-Fat Dry Milk (NFDM)

The production figures for non-fat dry milk include both whole milk powder (WMP) and NFDM. Official data only reports whole milk powder and infant formula. Industry sources believe Mexico’s production of WMP is around 95 percent of total powdered milk production.

Despite large availability of fresh milk, 2010 domestic powdered milk production is forecast to increase only 2 percent due to the lack of facilities to produce dry milk. The estimated production figures for CY 2009 remain unchanged. The data for CY 2009 shows an increase of 2.5 percent as a consequence of larger quantities of domestic fluid milk available.

The production in CY 2008 remains unchanged, and approximately 36 percent of the total powdered milk production was used for production of infant formula; in 2007, it represented 30 percent of the total.

Post Production data in PS&D reflect an estimated 100 percent of production of powdered milk although official data (INEGI) only report 80 percent of the total.

Consumption:

Non-Fat Dry Milk (NFDM)

NFDM consumption for CY 2010 is forecast at 433,000 MT, approximately 3.6 percent more than 2009 levels, due to stagnant demand for dairy products in both the consumer and industrial markets.

Despite the financial crisis and peso devaluation, in CY 2009 consumption is expected to increase 3.2 percent (data revised upward from the previous estimate). CY 2008 figures were revised upward due to higher imports during 2008, population growth and greater demand from the dairy processing sector. Sixty-three percent of the total supply of NFDM is bought by LICONSA and around 35 percent of milk powder is bought by processors. Processors use NFDM to make reconstituted milk, cheese, and/or other dairy products, and a small amount is sold by supermarkets and small retailers, while the HRI sector consumes the remaining amount.

Trade:

Non-Fat Dry Milk (NFDM)

In CY 2010, imports will show only an increase of 5.6 percent due to financial instability worldwide and the strengthening of the dollar against the peso. For CY 2009, the NFDM imports are being revised to reflect the slow rate of imports. However, it is 4 percent greater than CY 2008. Imports will continue increasing because of the lack of domestic production of dry milk.

Dry milk import figures for 2008 were revised upward to reflect official data. In 2008 sales were almost 43 percent more than 2007, due to lower prices and full implementation of NAFTA as of January 1, 2008.

Through June 2009, Mexico imported 71,407 MT of NFDM from the United States, which is 13 percent lower than the same period last year, and imported 32,517 MT from all other countries.

Table 2. Mexico: Imports of Total Non-Fat Dry Milk Powder, HS: 0402.10.01, Calendar Year 2006-2007 and January-July 2007-2008, In MT

Country of Origin	Calendar Year		January-June	
	2007	2008	2008	2009
United States	83,016	136,302	81,406	70,940
New Zealand	12,097	13,020	9,189	5,559
Uruguay	2,115	500	500	6,000
Others	14,255	354	144	5,768
Total	**111,483**	**150,176**	**91,239**	**88,267**

Source: World Trade Atlas, Mexico Edition

Whole Milk Powder (WMP)

As previously stated, production data for WMP is not available [1] . Selected processors, including dairy cooperatives, are attempting to increase WMP production to absorb seasonal oversupplies of fluid milk. However, due to limited processing capacity, Mexico will still have to complement domestic production with imports.

[1] ; SAGARPA combines production figures of NFDM and WMP.

Stocks:

Stocks

Although the majority of NFDM, both imported and domestic, is used for further processing, LICONSA is the main holder of milk powder stocks. In past years, LICONSA has attempted to maintain larger stock levels to avoid importing during the first quarter of the year when domestic milk production is at its lowest. Stock levels are expected to remain steady as LICONSA seeks to reduce storage costs while maintaining enough stocks to minimize imports during the last half of 2008 and 2009 due to the peso devaluation.

Author Defined:

DAIRY POLICY

Since U.S. exports of milk and dairy products to Mexico enter duty-free, the United States will continue to be the primary Mexican supplier. A major objective of the Mexican government is to ensure the availability of milk and dairy products to consumers, which is why the GOM's dairy policies encourage milk producers to improve efficiency and productivity levels.

Due to the financial crisis and higher production costs, large groups of noncompetitive producers have been complaining to the Mexican Government and Congress seeking a reduction of powder milk imports purchased by LICONSA.

LICONSA, one of the most important importers of powdered milk, distributes approximately 3.3 million liters of subsidized milk per day at the current price of 4.20 pesos per liter (U.S. $0.31). Although LICONSA has increased utilization of domestic fluid milk, it will continue importing NFDM. In CY 2009, LICONSA is estimated to have purchased 640 million liters of domestically produced raw fluid milk, 5 percent more than in CY 2008. The 640 million liters represents about 60 percent of LICONSA's total milk needs per year.

As a result of the political pressure, Congress passed an agreement (punto de acuerdo) instructing the GOM to continue with the current LICONSA purchase price of 4.20 pesos per liter plus quality incentives to Mexican producers for CY 2009.

Furthermore, the economic recession forced the Treasury Secretariat to seek to reduce the 2010 LICONSA budget by 31 percent. However, Congress is moving to rescind this reduction given the difficult financial problems the dairy sector is currently experiencing.

Additionally, Congress is seeking to establish a fixed price for UHT milk. The establishment of a fixed price would help to ensure all parts of the dairy sector receive a fair price for their efforts in the production of UHT milk. Finally, Congress is looking at establishing an out-of-quota tariff for all third countries for the imports of powder milk. Currently, the proposal is a tariff of 125.1 percent for all imports in excess of quotas with countries which have a free trade agreement. The out-of-quota tariff would not apply to imports from the United States.

The GOM is currently researching the problems facing the dairy sector in order to provide clear guidance to Congress. Such guidance might include the development of a Mexican dairy strategy to promote the domestic dairy sector and provide economic relief to the smaller producers.

DAIRY MARKETING

Mexico is expected to continue to be a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of raw material and bulk products such as NFDM, higher-value products such as specialty cheeses and ice creams are also likely to find a home with Mexico's growing middle class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

However, due to the financial crisis, devaluation and higher import prices, consumers will continue to purchase inexpensive generic brands in the short term. Despite efforts of the Mexican milk industry's promotional campaigns, which are aimed at stimulating consumption, consumption is stagnating. In addition, Mexican dairies continue to look for infrastructure investments from outside of Mexico.

The U.S. Agricultural Offices in Mexico City and Monterrey provide information on all aspects of U.S. dairy product trade and use, including market intelligence on trade policy issues. They organize informational seminars for the Mexican trade, and develop promotion and sales opportunities for U.S. dairy products in the Mexican market. Furthermore, the cooperator group representing the U.S. dairy industry in foreign markets, the U.S. Dairy Export Council (USDEC), also organizes buying missions for potential Mexican importers/distributors to visit U.S. dairy processing plants so they can meet U.S. suppliers.

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